

Fiscal Services Division

Legislative Services Agency

Fiscal Note

HF 912 - Web Search Portal Business Sales & Property Tax Exemption (LSB 2922 HV)
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Fiscal Note Version - New

Description

The Bill provides for a sales and use tax exemption on specified equipment used in the operation and maintenance of a web search portal business. Qualifying web search portal businesses must be located in Iowa and must make a minimum investment of \$200 million within the first six years of operation in Iowa. In addition, the web search portal business must purchase, option, or lease land in Iowa by December 31, 2008.

The Bill also provides a property tax exemption for property utilized by a web search portal business that qualifies for the provisions for the sales and use tax exemption.

Background

The web search portal businesses require specific infrastructure needs that include access to a large network of fiber-optic cables, access to electric power grids with electrical redundancy, and access to an ample water supply used for keeping computer servers and other heat-generated equipment cool. There are currently no web search portal businesses in Iowa that would qualify for the tax exemptions specified in HF 912.

North Carolina and South Carolina have recently announced that a web search portal business will invest up to \$600 million and will create over 200 jobs in their states. The newly created jobs will pay an average of \$48,300 plus benefits. In each case, tax incentives were provided to the web search portal business.

Assumptions

The following assumptions were used to estimate the fiscal impact:

- One building per year will be built for a total of three buildings in this analysis. Construction on the first building to begin on January 1, 2009 and completed by January 1, 2010.
- Each building will have a total capital investment of \$600 million. Building and exterior equipment will be \$300 million and servers and other technology equipment will account for another \$300 million.
- Fifty percent of the investment in building and exterior equipment will be from labor and other nontaxable items.
- Section 423.3(47), Code of Iowa, currently exempts computer servers from sales and use tax. This estimate assumes that 90.0% of the servers and other technology equipment are currently exempt from the sales and use tax.
- The State sales tax rate is 5.0%. Beginning July 1, 2007, the estimated State-wide local option sales and services tax is 1.6% (includes both the county and school district local options sales tax).
- For building and exterior expenses, 48.0% of the tax year impact will be realized in the same fiscal year and 52.0% of the tax year impact will occur in the subsequent fiscal year. For the servers and technology equipment purchases, it is assumed that these expenses will occur one quarter after completion of a building.

- For property tax purposes, the investment in building structures and the land on which they are located will remain subject to property tax. Of the equipment investment amount, this assumes that 15.0% will be taxable. All of the computers, servers, and related equipment that is currently exempt from sales and use tax or made exempt from sales and use tax by this proposed legislation, would be exempt from property tax.
- This assumption does not include any local property tax incentives.
- Growth of 4.0% annually in taxable valuation.
- Property tax rate of \$37.75 per \$1,000 of taxable valuation (average consolidated commercial property tax rate in metropolitan counties). The amount for the uniform levy (rate of \$5.40 per \$1,000 of taxable valuation) not levied due to property tax exempted will be made up in State aid to school districts.
- The first building will be assessed beginning in 2008. Taxes payable based on that assessment would begin in FY 2010.
- Iowa's share of energy use by data processing, hosting, and related services during 2006 was approximately 1.7% of the national total. Energy usage by these types of facilities is projected to increase at an annual rate of 11.8% through FY 2012 for this analysis.
- Assumes the business will locate in an area that has the required infrastructure to support a web search portal business.
- Assumes that beginning with FY 2010, 80 new jobs would be created annually through FY 2012 for a total of 240 new jobs. Based on a starting salary of \$48,000, the estimated income tax (from salary income only) would be approximately \$2,050. In addition, it is estimated that sales tax revenue for a family with an income level between \$50,000 and \$69,999 would be \$1,055 in FY 2010. However, the overall impact due to income tax and sales tax to the State General Fund due to the newly created jobs is unknown.

Fiscal Impact

The overall fiscal impact is based on the above assumptions and reflects the impact on the State General Fund and local taxes through FY 2012. The estimate does not take into account any new economic activity that may result from the proposed legislation.

There will be no fiscal impact in FY 2008 due to this legislation.

The estimated fiscal impact of HF 912 for FY 2009 through FY 2012 due to the tax incentives is provided in the table below.

Estimated Impact Due to HF 912

State General Fund	FY 2009	FY 2010	FY 2011	FY 2012
Sales and Use Tax	\$ - 3.6	\$ - 12.7	\$ - 22.0	\$ - 31.3
Uniform Levy Replacement for School Aid	\$ 0.0	\$ 0.0	\$ 0.0	\$ - 1.4
Total General Fund Impact	\$ - 3.6	\$ - 12.7	\$ - 22.0	\$ - 32.7

Local Tax Impact	FY 2009	FY 2010	FY 2011	FY 2012
Local Option Sales and Services Tax	\$ - 1.2	\$ - 4.1	\$ - 7.2	\$ - 10.2
Property Tax	\$ 0.0	\$ 0.0	\$ 0.0	\$ - 9.6

Sources

Iowa Department of Revenue
Government Technology's Public CIO
SC.GOV (The Official Website of the state of South Carolina)
E-Commerce Times (<http://www.ecommercetimes.com/story/55266.html>)

Dennis C Prouty

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.
